SPECIAL ONE-PAGE LETTER ON THE PRIMARY TREND INDEX (MAILED OCTOBER 11)

The stock market couldn't care less about Richard Russell's mailing schedule. No sooner was Letter 923 put in the mail than my PTI completed its head-and-shoulders top pattern -- and broke down. That action, I felt, should be brought to the attention of subscribers as soon as possible.

The little chart in the Late Notes section (page 6) of the regular Letter 923 shows a 4x12 chart of the PTI. That means that every box on that chart equals 4 points, and only rallies or declines of 12 points or more are depicted. The chart on this page is a more detailed 2x6 chart. This means that every box here equals 2 points on the PTI and rallies or declines of 6 points or more are shown.

On the 2x6 chart the picture of the PTI is more ominous. The chart shows a left shoulder, a rally to the top or head at 1939, and then a weak right shoulder. The topping pattern was completed on Oct. 8 when the PTI broke below support at 1894.

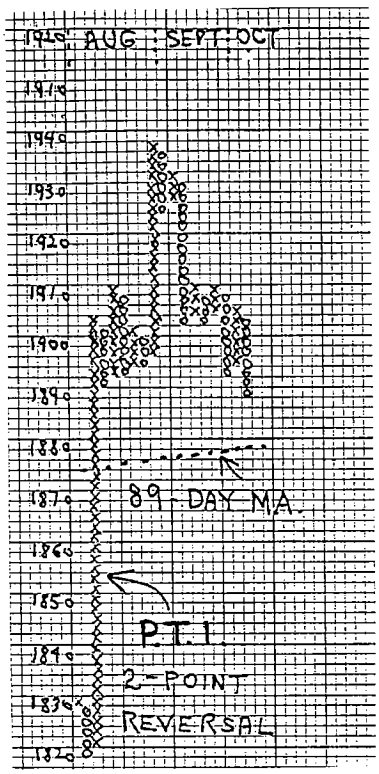
The PTI posted its record high of 1939 on Aug. 19. It has been sliding or moving sideways ever since. But the total picture of the last three months as seen on this chart is clear. A top has been formed. I use three criteria to check the trend of the PTI: (1) I use patterns such as this head-and-shoulders formation; (2) I use trendlines, and (3) I use an 89-day weighted moving average.

On Oct. 8, the PTI, having formed a top pattern over a three-month period, broke below the long trendline connecting the January and April lows. That was "two away". The PTI is now approximately 20 points above its 89-day moving average. Based on what I see, I would say the odds are 2:1 that the 89-day moving average will be penetrated. That would be "three away".

On the basis of the Oct. 8 action I thought subscribers should be warned again. Top patterns in the PTI have (in the past) proved to have been important. Most have represented major reversal patterns. There is obviously no guarantee that this particular head-and-shoulders top will represent a major turning point for the market. But it is a definite, unmistakable technical warning sign.

From the standpoint of the D-J Averages, additional warnings (i.e., confirmatory warnings) would come from the (1) Industrials and Transports breaking 1297.94 and 640.57 respectively, and (2) Industrials and Transports then breaking 1242.05 and 571.08 respectively.

The stock market tells its story bit by bit, piece by piece. From the standpoint of my studies, the story has been growing less pleasant ever since the PTI high on Aug. 19. At this point I want my subscribers to be on guard and moving toward safety. This entails cutting back on equity positions. I don't like the way things are shaping up in this market. Certainly from the standpoint of the PTI we could have real trouble ahead.



I wish I knew more than what I have written here -- but I don't. I wish I could tell my loyal subscribers exactly what is coming up -- but I can't. I am thankful to have the PTI, and I am thankful to have had my 40 years of experience with the stock market. That experience tells me that there could be lots of trouble ahead -- both in the stock market and in the economy. The first warning has arrived.

LATE COMMENT: As this is written Congress is playing "chicken" with the budget ceiling bill and the "get rid of the deficit" amendment which has been attached to the budget ceiling bill. If Congress can pass the bill as is and reduce the deficit to zero in 1991, the bond market should boom. But the cuts in federal spending needed to produce a zero deficit would also produce a huge contraction in the economy. With the public singularly disinterested in a new Reagan tax bill but vitally interested in cutting the deficit, the pressure is on Congress to make a move. Will they do it? If they produce anything like a zero budget deficit bill, I for one will be amazed. My guess: a compromise kind of bill with a Democrat-dictated tax boost.

Please Note: The next Letter will be mailed out on the regularly scheduled date -- October 23.